

Message Text

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ACTION ARA-20

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CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-03 INR-10

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SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01 USIA-15

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R 051935Z JUN 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 4079

C O N F I D E N T I A L CARACAS 5059

E.O. 11652: GDS

TAGS: ENRG, VE, RQ

SUBJECT: TAX ON OIL SHIPMENTS TO PUERTO RICO

REF: (A) STATE 116204 (B) CARACAS 1579 (C) CARACAS 2118

1. EMBASSY HAS DISCUSSED CONTENTS REFTEL WITH MANAGER OF VENEZUELAN SUN OIL COMPANY, GUSTAVO ARISTEGUIETA, WHO ASSURES THAT PUERTO RICO IS NOT SUFFERING ADVERSE EFFECTS FROM ANTILLES TAX, WITH RESPECT TO SHIPMENTS OF PETROLEUM BY SUN OIL COMPANY, AND REQUESTS THAT U.S. GOVERNMENT NOT RPT NOT TAKE UP THIS MATTER WITH VENEZUELAN GOVERNMENT.

2. ARISTEGUIETA STATES THAT VENEZUELAN SUN RECEIVED EXMEPTION FROM 8 PCT ANTILLES TAX, AS HAD BEEN CUSTOMARY IN RECENT YEARS, ON SOME 22 MILLION BARRELS OF OIL WHICH IT HAD FORECAST FOR EXPORT TO PUERTO RICO IN ITS 1973 EXPORT PROGRAM. TOWARD END OF 1973, AS IT BECAME OBVIOUS THAT PRODUCTION AND DESIRED QUANTITY OF EXPORTS TO PUERTO RICO WERE HIGHER THAN HAD BEEN EXPECTED, VENEZUELAN SUN REQUESTED EXEMPTION FOR AN ADDITIONAL QUANTITY OF OIL (APPROXIMATELY 4 MILLION BARRELS) FOR SHIPMENT TO PUERTO RICO. THIS REQUEST WAS DENIED.

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SUBSEQUENTLY WHEN VENEZUELAN SUN SUBMITTED ITS 1974 EXPORT PROGRAM, AS

REQUIRED UNDER DECREE 832, IT REQUESTED EXEMPTION FOR OVER 20 MILLION BARRELS OF OIL FOR SHIPMENT TO PUERTO RICO DURING 1974. THIS EXMPT-ION WAS REFUSED.

3. IN ORDER TO CONTINUE TO SUPPLY PUERTO RICAN REFINERY WITH OIL, WITHOUT SUBJECTING THOSE SHIPMENTS TO 8 PCT ANTILLES TAX, SUN NEGOTIATED AN OIL EXCHANGE WITH OTHER COMPANIES OPERATING IN VENEZUELA (SHELL AND

MENE GRANDE) UNDER WHICH IT TURNED OVER TO THEM OIL SUBJECT TO 8 PCT ANTILLES TAX AND IN RETURN RECEIVED COMPARABLE VL WHICH IS EXMEMP FROM ANTILLES TAX. (AS ANTILLES TAX ONLY APPLIES TO OIL FROM "NEW" CONCESSIONS-THOSE GRANTED IN 1956-57-MOST VENEZUELAN OIL IS NOT SUBJECT TO ANTILLES TAX, BUT SUN, BEING A LATECOMER TO VENEZUELA, HAS ALL OF ITS OIL SUBJECT TO ANTILLES TAX.)

4. VENEZUELAN GOVERNMENT HAS NOT BEEN SPECIFICALLY INFORMED OF ARRANGEMENTS MADE BY VENEZUELAN SUN OIL COMPANY TO AVOID PAYMENT OF ANTILLES TAX ON OIL SHIPPED TO PUERTO RICO. SUN DID MODIFY ITS EXPORT PROGRAM UNDER DECREEE 832, SOON AFTER NEW VENEZUELAN GOVT CAME TO POWER, AND MODIFIED VERSION OF PROGRAM SHOWS THAT OIL PREVIOUSLY DESTINED FOR PUERTO RICO IS NO LONGER BEING SHIPPED THERE. PROGRAMS OF OTHER COMPANIES WITH WHICH SUN MADE OIL EXCHANGE PRESUMABLY SHOW CORRESPONDING INCREASED SHIPMENTS OF OIL TO PUERTO RICO. THEREFORE, INFORMATION ABOUT OIL EXCHANGE TRANSACTION IS AVAILABLE TO VENEZUELAN GOVT BUT THEY HAVE TAKEN NO OFFICIAL NOTICE OF IT AS YET, WHETHER DELIBERATELY OR NOT. THUS, SUN MANAGER REQUESTS THAT NEITHER U.S. GOVERNMENT NOR PUERTO RICAN OFFICIALS TAKE ANY ACTION WHICH WOULD BRING THIS MATTER TO ATTENTION OF VENEZUELAN GOVERNMENT. SUCH ACTION COULD OBVIOUSLY RESULT IN ACTUAL APPLICATION OF ANTILLES TAX TO SHIPMENTS TO PUERTO RICO WHICH ARE NOW IN ACTUALITY IF NOT IN THEORY EXEMPT FROM THE TAX.

5. ARISTEGUIETA SAID THAT, IF DEPARTMENT WOULD FIND IT HELPFUL, HE IS CERTAIN SUN OIL WOULD BE GLAD TO SEND AN OFFICIAL TO PUERTO RICO FROM PHILADELPHIA HEADQUARTERS TO EXPLAIN ABOUT DESCRIBED ARRANGEMENT

TO FOMENTO DIRECTOR TEODORO MOSCOSO. EMBASSY BELIEVES THAT THIS
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APPROACH
WOULD BE PREFERABLE TO DEPARTMENT'S PASSING ON ABOVE INFORMATION DIRECTLY TO MOSCOSO IN VIEW OF SENSITIVITY OF SUBJECT FROM POINT OF VIEW OF SUN OIL COMPANY'S RELATIONS WITH VENEZUELA.

6. ARISTEGUIETA STATES THAT ONLY FACTOR WHICH IS ACTUALLY HOLDING BACK

VENEZUELAN SUN'S OIL SHIPMENTS TO PUERTO RICO AT THIS TIME IS NOT ANTILLES TAX, BUT FORCED SHUT-IN OF 69,000 BARRELS PER DAY OF SUN OIL

PRODUCTION. AS REPORTED REF B AND C, THIS OIL WAS ORIGINALLY SHUT IN BECAUSE OF UNIFICATION DISPUTE INVOLVING MINISTRY OF MINES AND HYDROCARBONS, SUN OIL, AND OTHER COMPANIES ENTITLED TO RECEIVE PRODUCTION FROM SAME FIELD. UNIFICATION PROBLEM WAS SOLVED THROUGH INTER-COMPANY NEGOTIATIONS AND THROUGH AGREEMENT TO SUBMIT REMAINING DISPUTED POINT INVOLVING EQUITY SHARES TO ARBITRATION, BUT SUN WAS THEN UNABLE TO BRING FIELD BACK INTO PRODUCTION BECAUSE BY THAT TIME NEW CONSERVATION RESTRICTIONS HAD BEEN IMPOSED BY VENEZUELAN GOVERNMENT. NOW, HOWEVER, SUN HAS GAS REINJECTION FACILITIES ALMOST COMPLETED AND HAS BEEN ASSURED BY MINISTRY THAT WHEN THEY ARE COMPLETED (ABOUT JULY 15) SUN WILL BE ABLE TO BRING THIS PRODUCTION BACK ON STREAM.

7. WITH REGARD TO DEPARTMENT'S QUESTION ABOUT SCOPE OF ANTILLES TAX, EMBASSY UNDERSTANDS THAT IT APPLIES NOT ONLY TO SHIPMENTS TO PUERTO RICO BUT ALSO TO SHIPMENTS TO OTHER REFINERIES IN CARIBBEAN. ITS NAME SUGGESTS THAT IT WAS ORIGINALLY AIMED AT REFINERIES IN NETHERLANDS ANTILLES. HOWEVER, AS STATED ABOVE, IT APPLIES ONLY TO RELATIVELY SMALL PORTION OF VENEZUELAN OIL, THAT WHICH COMES FROM NEWER CONCESSIONS.
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